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Russian Federation

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Excise Taxes and Price Regulation of Alcoholic Beverages

Report Categories:

Agriculture in the News

Agricultural Situation

Trade Policy Monitoring

Wine

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Report Highlights:

Excise tax rates for alcoholic beverages in Russia have increased steadily and significantly from 2011-2014. As a result, the minimum cost of the cheapest bottle of vodka has grown from 100 Russian Rubles in 2009 to 200 Rubles in 2013. The doubling in price over this period has also raised the amount of illegal vodka in the Russian market. According to market analysts, around 50 percent of all vodka sold in Russia in 2013 was illegally bottled and sold as counterfeit. Excise taxes on alcoholic beverages add roughly 300 billion Rubles to the Russian coffers each year, roughly 1.3 percent of the total yearly government budget.

General Information:

Excise Taxes

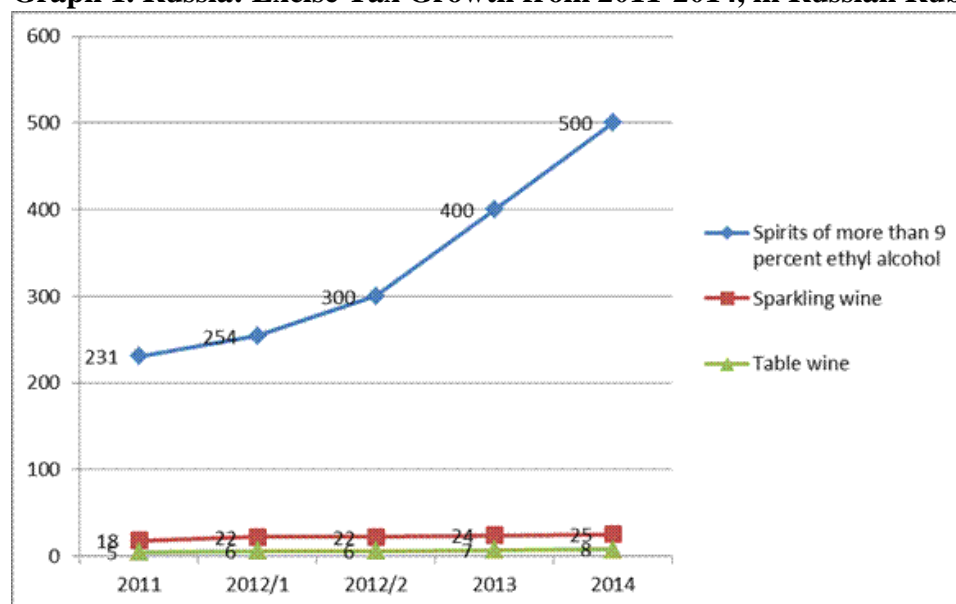
Excise tax rates for alcoholic beverages in Russia have increased steadily and significantly for the years 2011-2014. In 2013, excise tax rates rose 33.3 percent on spirits with more than 9 percent ethyl alcohol content. In January 2014, they rose an additional 25 percent. For spirits of 9 percent and less ethyl alcohol content, excise tax rates increased 18.5 percent in 2013 and another 25 percent in 2014. In 2013, the excise tax rates for table wine, sparkling wine, and beer rose 16.6 percent, 9 percent, and 25 percent, respectively; in January 2014, those rates rose further by 14.3 percent, 4.2 percent, and 20 percent, respectively.

Table 1. Russia: Excise Tax Rates, 2011-2014, in Russian Rubles

	2011	Jan-Jun 2012	Jul-Dec 2012	2013	2014
Rubles per liter of ethyl alcohol content					
Pure ethyl alcohol	34	37	44	59	74
Spirits of more than 9 percent ethyl alcohol	231	254	300	400	500
Spirits of 9 percent and less	190	230	270	320	400
Rubles per liter of alcohol product					
Sparkling wine	18	22	22	24	25
Table wine	5	6	6	7	8
Beer with 8.6 percent or less ethyl alcohol	10	12	12	15	18
Average exchange rate per \$1	29.35	31.07	31.07	31.9	

Source: Tax Code of Russian Federation

Graph 1. Russia: Excise Tax Growth from 2011-2014, in Russian Rubles



Source: Tax Code of Russian Federation

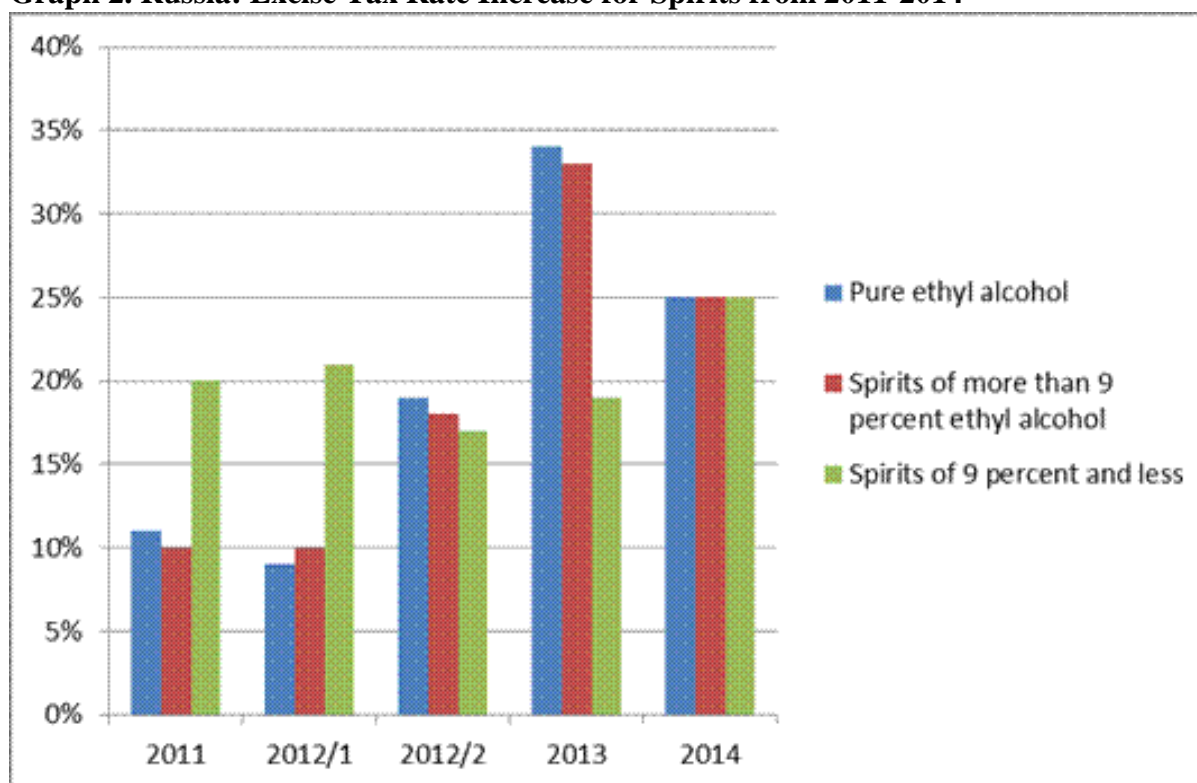
Table 2. Russia: Excise Tax Growth from 2011-2014, in Percentage

	2011	Jan-Jun 2012	Jul-Dec 2012	2013	2014
Pure ethyl alcohol	11%	9%	19%	34%	25%
Spirits of more than 9 percent ethyl alcohol	10%	10%	18%	33%	25%
Spirits of 9 percent and less	20%	21%	17%	19%	25%
Sparkling wine	29%	22%	0	9%	4%
Table wine	43%	20%	0	17%	14%
Beer with 8.6 percent or less ethyl alcohol	11%	20%	0	25%	20%

Source: Tax Code of Russian Federation

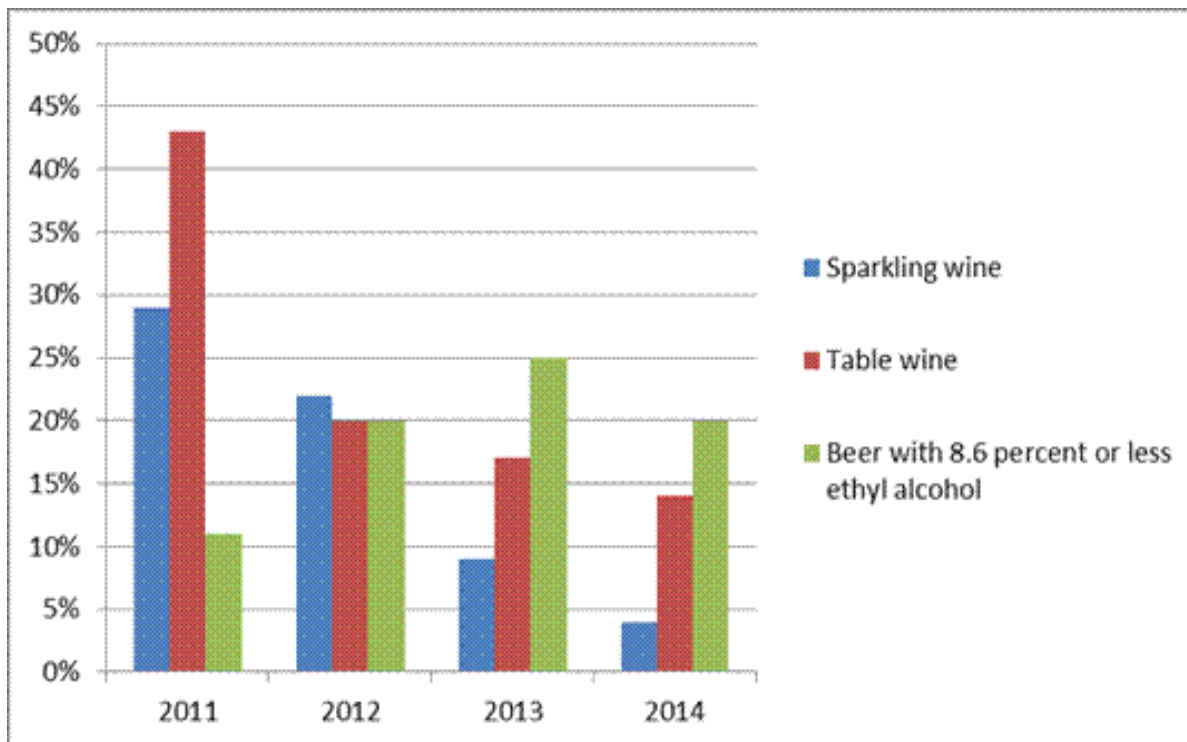
* 2012 the Russian Government increased excise taxes in two parts of the year.

Graph 2. Russia: Excise Tax Rate Increase for Spirits from 2011-2014



Source: Tax Code of Russian Federation

Graph 3. Russia: Excise Tax Rate Increase for Wine and Beer from 2011-2014



Source: Tax Code of Russian Federation

Excise Taxes on Distilled Spirits Are Major Source of Revenue For Russian Government

Excise taxes on alcoholic beverages adds roughly 300 billion Rubles to the Russian coffers each year, roughly 1.3 percent of the total yearly government budget. Since January 1, 2012, Russian authorities have tried to increase the level of alcohol excise taxes to a European level.

As a result, the Russian government began raising excise taxes by 30 percent per year. The minimum cost of the cheapest bottle of vodka has grown from 100 Rubles in 2009 to 200 Rubles in 2013. The large excise tax growth placed on distilled spirits has also increased the amount of illegal vodka in the Russian market. Industry experts have stated that more than half of all vodka sold in 2013 was illegal.

Price Regulation

The Federal Service on Regulation of Alcohol Market (FSRAM) sets minimum prices for alcoholic beverages (at 56 proof and higher) in Russia. FSRAM has set the minimum retail price for a half liter bottle of vodka or vodka product (both local and imported) since 2009. The minimum price for alcohol includes production costs, excise tax, VAT of 18 percent, minimum wholesale margin of 10 percent and minimum retail trading margin of 20 percent. Alcohol industry players believe that the function of minimum price setting for alcoholic beverages is very important because it helps to identify the black market sales of alcohol products. Last November FSRAM prepared a Draft Order on minimum prices for alcohol according to which minimum prices for vodka would increase in two parts in 2014.

Table 3. Russia: Minimum Prices of Alcoholic Beverages for ½ Liter Bottle, in Rubles

	2013			2014*					
Alcoholic beverages	In production	At wholesale	At retail	In production		At wholesale		At retail	
Vodka	132	138	170	154	171	162	179	199	220
Brandy	196	205	250	228		239		293	
Cognac	220	230	280	250		262		322	

Source: FSRAM Draft Order

* Draft Order, once approved, will increase minimum prices for vodka in two parts in 2014.

According to the Draft Order, the new minimum prices will be set at 199 Rubles at retail for the first seven months of 2014, 162 Rubles at wholesale and 154 Rubles in production for a half liter bottle of vodka or vodka product until August 1, 2014 (in 2013 – 170 Rubles at retail, 138 Rubles at wholesale and 132 Rubles in production). As of August 1, 2014, minimum prices for a half liter bottle of vodka or vodka product will jump to 220 Rubles at retail, 179 Rubles at wholesale and 171 Rubles in production.

FSRAM also introduces minimum prices for half liter bottles of hard liquor over 56 proof (over 28 percent alcohol by volume (abv)). According to the FSRAM Draft Order, minimum prices for brandies will be 293 Rubles at retail, 239 Rubles at wholesale and 228 Rubles in production (current minimum prices are 250 Rubles at retail, 205 Rubles at wholesale and 196 Rubles in production); minimum prices for cognac will be 322 Rubles at retail, 262 Rubles at wholesale and 250 Rubles in production (current minimum prices are 280 Rubles at retail, 230 Rubles at wholesale and 220 Rubles in production).

Table 4. Russia: Minimum Prices for Alcoholic Beverages, Growth in 2014, in Percentage

	2014/2013		
Alcoholic beverages	In production	At wholesale	At retail
Vodka	29.5%	29.7%	29.4%
Brandy	16.3%	16.6%	17.2%
Cognac	13.6%	13.9%	15%

Source: FSRAM Draft Order

The growth of minimum prices for alcoholic beverages planned for 2014 is significantly higher than the anticipated inflation rate of 5 percent. Market analysts predict that this jump in minimum prices on alcoholic beverages will significantly increase the percent of illegal vodka on the Russian market and all of the negative consequences that come with more consumption of illegal spirits. The higher minimum prices for vodka, brandies and cognac as stated in this report are to be implemented as soon as Order is approved.